

**REPORT OF THE AUDIT OF THE
HARRISON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARRISON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2001

The Auditor of Public Accounts has completed the Harrison County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$4,943,129 from the prior fiscal year, resulting in a cash surplus of \$7,655,994 as of June 30, 2001. This large increase is due in part to the bonds issued during the fiscal year for the construction of a Justice Center. This project was in the construction phase during the fiscal year and the construction account had a cash balance of \$4,947,254 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$6,075,000. Future collections of \$6,075,000 are needed over the next 20 years to pay all bonded debt principal.

Report Comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

On August 31, 2000, \$109,312 of the county's deposits of public funds in depository institutions was uninsured and unsecured.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Harrison County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Harrison County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Harrison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Harrison County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2002, on our consideration of Harrison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Harrison County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 24, 2002

HARRISON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Dean Peak	County Judge/Executive
Stanley Lemons	Magistrate
Frankie Taylor	Magistrate
Brad Marshall	Magistrate
Jerry Dawson	Magistrate
Robert Lake	Magistrate
Alexander Barnett	Magistrate
Mike Brogli	Magistrate
James Darryl Rainey	Magistrate

Other Elected Officials:

Charles W. Kuster, Jr.	County Attorney
Larry Turner	Jailer
Ralph E. Coppage	County Clerk
Wanda Marsh	Circuit Court Clerk
Bruce Hampton	Sheriff
Jerry Casey	Property Valuation Administrator
Donald T. Ware	Coroner

Appointed Personnel:

Deborah Martin	County Treasurer
Sherry Judy	Occupational Tax Collector

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

HARRISON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash \$ 1,793,639

Road and Bridge Fund:

Cash 175,485

Jail Fund:

Cash 18,999

Local Government Economic Assistance Fund:

Cash 38,739

Payroll Revolving Account - Cash 541 \$ 2,027,403

Special Revenue Fund Type

Federal Grant Fund:

Cash \$ 45,844

E-911 Fund:

Cash 385,362 431,206

Trust and Agency Fund Type

Shropshire Fund:

Cash 250,672

Debt Service Fund Type

Public Properties Corporation Fund:

Cash \$ 153,465

Investments 4,793,789 4,947,254

Other Resources

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Payments 6,075,000

Total Assets and Other Resources \$ 13,731,535

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Payroll Revolving Account	\$	541
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Debt Service Fund Type

Public Properties Corporation Fund:		
Bonds Not Matured		6,075,000

Fund Balances

Reserved:

Special Revenue Fund Type

Federal Grant Fund	\$	45,844	
E-911 Fund		385,362	431,206

Debt Service Fund Type

Public Properties Corporation	4,947,254
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Trust and Agency Fund Type

Shropshire Fund	250,672
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Unreserved:

General Fund Type

General Fund	\$	1,793,639	
Road and Bridge Fund		175,485	
Jail Fund		18,999	
Local Government Economic Assistance Fund		38,739	2,026,862

Total Liabilities and Fund Balances	\$	<u>13,731,535</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HARRISON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

		General Fund Type		
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 5,361,807	\$ 3,835,793	\$ 991,428	\$ 83,658
Transfers In	877,703		374,000	339,000
Kentucky Advance Revenue Program	1,609,800	1,609,800		
Bond Proceeds	6,075,000			
Total Cash Receipts	<u>\$ 13,924,310</u>	<u>\$ 5,445,593</u>	<u>\$ 1,365,428</u>	<u>\$ 422,658</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,292,432	\$ 2,801,285	\$ 1,416,653	\$ 422,047
Schedule of Other Expenditures	1,201,246			
Transfers Out	877,703	877,703		
Kentucky Advance Revenue Program Repaid	1,609,800	1,609,800		
Total Cash Disbursements	<u>\$ 8,981,181</u>	<u>\$ 5,288,788</u>	<u>\$ 1,416,653</u>	<u>\$ 422,047</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 4,943,129	\$ 156,805	\$ (51,225)	\$ 611
Cash Balance - July 1, 2000	<u>2,712,865</u>	<u>1,636,834</u>	<u>226,710</u>	<u>18,388</u>
Cash Balance - June 30, 2001	<u>\$ 7,655,994</u>	<u>\$ 1,793,639</u>	<u>\$ 175,485</u>	<u>\$ 18,999</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type	Special Revenue Fund Type		Trust and Agency Fund Type		
Local Government Economic Assistance Fund	Federal Grant Fund	E-911 Fund	Shropshire Fund	Cox Fund	Stump Fund
\$ 7,244	\$ 24,811 4,058	\$ 304,654 160,645	\$ 31,792	\$ 6,088	\$ 2,839
<u>\$ 7,244</u>	<u>\$ 28,869</u>	<u>\$ 465,299</u>	<u>\$ 31,792</u>	<u>\$ 6,088</u>	<u>\$ 2,839</u>
\$	\$ 14,940	\$ 79,937	\$ 30,058	\$ 348,269	\$ 158,643
<u>\$ 0</u>	<u>\$ 14,940</u>	<u>\$ 79,937</u>	<u>\$ 30,058</u>	<u>\$ 348,269</u>	<u>\$ 158,643</u>
\$ 7,244 31,495	\$ 13,929 31,915	\$ 385,362	\$ 1,734 248,938	\$ (342,181) 342,181	\$ (155,804) 155,804
<u>\$ 38,739</u>	<u>\$ 45,844</u>	<u>\$ 385,362</u>	<u>\$ 250,672</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

	<u>Trust and Agency Fund Type</u>	<u>Debt Service Fund Type</u>
	<u>Moore Fund</u>	<u>Public Properties Corporation</u>
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$	\$ 73,500
Transfers In		
Kentucky Advance Revenue Program		
Bond Proceeds		6,075,000
Total Cash Receipts	<u>\$ 0</u>	<u>\$ 6,148,500</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 20,600	\$
Schedule of Other Expenditures		1,201,246
Transfers Out		
Kentucky Advance Revenue Program		
Repaid		
Total Cash Disbursements	<u>\$ 20,600</u>	<u>\$ 1,201,246</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (20,600)	\$ 4,947,254
Cash Balance - July 1, 2000	<u>20,600</u>	
Cash Balance - June 30, 2001	<u>\$ 0</u>	<u>\$ 4,947,254</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Harrison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Harrison County Public Properties Corporation as part of the reporting entity.

Harrison County Public Properties Corporation:

The Harrison County Public Properties Corporation cannot be sued in its own name without recourse to the Harrison County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Harrison County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Harrison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Harrison County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Harrison County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Federal Grants Fund and the E-911 Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. The Administrative Office of the Courts provides debt service for this bond issue with no annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Trust and Agency Fund Type

Trust and Agency Fund Type accounts for assets held by a governmental unit in trustee capacity or as agent. Under non-expendable trust agreements, only the interest earned on principal may be used for specific purposes. The Shropshire Fund, Cox Fund, Stump Fund, and Moore Fund of the Fiscal Court are reported as Trust and Agency Fund Types. The Cox, Stump and Moore Funds are non-expendable trust agreements; however, the Shropshire Fund is not.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Harrison County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and payments are being made by the Administrative Office of the Courts to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Harrison County has entered into joint ventures with the city of Cynthia for the following enterprises: Cynthia/Harrison County Public Properties Corporation, Cynthia/Harrison County Industrial Authority, and Cynthia/Berry/Harrison County E-911.

HARRISON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$109,312 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by the county's agent in the county's name	\$ 2,927,462
Uncollateralized and uninsured	<u>109,312</u>
Total	<u><u>\$ 3,036,774</u></u>

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

On February 7, 2001, the Harrison County Public Properties Corporation issued \$6,075,000 in First Mortgage Revenue Bonds, Series 2001, for the purpose of constructing a Justice Center. The bond issue covers a twenty-year period with an annual principal payment due each March 1, beginning March 1, 2003. Interest is payable semi-annually each September 1 and March 1, beginning September 1, 2001. The county subsequently entered into a sub-lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. The total principal balance outstanding was \$6,075,000 as of June 30, 2001.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 296,116	\$
2003	273,338	195,000
2004	265,538	200,000
2005	257,538	210,000
2006	249,138	220,000
2007-2011	1,099,687	1,255,000
2012-2016	799,172	1,585,000
2017-2021	394,011	1,960,000
2022	21,375	450,000
Totals	<u>\$ 3,655,913</u>	<u>\$ 6,075,000</u>

Note 5. Related Party Transaction

In January 2001, the Harrison County Fiscal Court purchased a building from Kentucky Utilities Company (at a cost of \$120,875), to be used by the Harrison County Sheriff's office. Robert S. Lake, a Harrison County Magistrate and a licensed real estate broker, acted as the county's agent during the purchase of the building. Neither Mr. Lake, nor his firm, D.G. Schell Realty Co., received a commission as a result of his actions. Additionally, he abstained from voting with regard to the purchase.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Commitments and Contingencies

A. Cynthiana/Harrison County Public Properties Corporation

In June 1995, the Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) formed the Cynthiana/Harrison County Public Properties Corporation (the Corporation) for the acquisition and financing of the Cynthiana/Harrison County Community Service Building project. Upon formation of the Corporation, individual and corporate donations were received and the City received a \$350,000 CDBG grant to construct the community service building. The donations and grant were expected to be approximately \$500,000 short of the anticipated construction costs. The Corporation executed a loan agreement with Farmers National Bank to draw up to \$499,000 in order to complete the project. The rent collected from several community service organizations is used to service the debt. The Corporation is managed by the City, and there has been no audit performed for the Corporation in the past four (4) years. We recommend that an audit be performed. Should the Corporation default on the loan at Farmers National Bank, the county could ultimately be responsible for one-half of the outstanding liabilities. As of June 30, 2001, the outstanding liability was \$468,772.

B. Cynthiana/Harrison County Industrial Authority

In January 1999, Harrison County Fiscal Court (the County) adopted a resolution, which obligates the county (in conjunction with the City of Cynthiana's matching offer) to cover fifty percent of any expenses "not covered from net sales proceeds of land by the Cynthiana/Harrison County Industrial Authority" (the Authority). This obligation was made in support of the Authority's project to develop an industrial park in Harrison County. In this resolution, the County also committed "the sum of two hundred fifty thousand (\$250,000) dollars" in order for the Authority to receive an additional one and one-half million (\$1,500,000) dollar federal grant. The County's commitment represents one-half of the matching funds needed (in conjunction with the City's matching offer) for the Authority to receive the additional funding. The Authority obtained an \$800,000 loan for the purchase of the land for the project. As of June 30, 2001, the outstanding liability on the loan was \$786,240. As of the audit date, the County has distributed approximately two hundred fifty thousand (\$250,000) dollars to the Authority.

C. Cynthiana/Berry/Harrison County E-911

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

In April 1999, Harrison County Fiscal Court (the County) passed an ordinance for “the establishment of an Enhanced 911 Emergency Telephone Service within Cynthiana and Harrison County, Kentucky.” An E-911 Advisory Board (the Board) was created with the City of Cynthiana (the City) and the County equally represented on the Board. The City and County subsequently entered into an interlocal agreement which states, in part, “The cost of the E-911 program shall be funded from the receipts from a telephone service surcharge, which has been levied by the County to be collected by the appropriate telephone operating company on each eligible business and residential telephone line operating within Harrison County. The County may fix or change the rate of the telephone surcharge to be applied, but it shall be sufficient to meet the budgetary requirements for the operation of the E-911 program. If at any time moneys collected from the telephone surcharge are insufficient to meet the needs and obligations of the Board for the operation of the E-911 program, the remaining costs shall be apportioned evenly (50/50) between the City and the County and immediately forwarded to the Harrison County Treasurer for use by the Board in the operation of the Center.” The county has established “an assessment fee of \$2.50 per month for each telephone line within the City and County.” As of the audit date, the system has been implemented, and the established fee appears to have covered the operating expenses of the E-911 program at this time.

Note 7. Transfer Of Educational Trust Funds

Harrison County was named trustee for three educational trust funds established as the Stump, Cox, and Moore Educational Trust Funds. These funds were intended to generate enough interest to provide funds to worthy individuals within Harrison County for educational purposes. The Harrison County Fiscal Court directed their County Attorney to investigate the possibility of transferring these funds to the Harrison County Board Of Education since the funds were intended to further educational needs. On July 25, 2000, it was reported in the minutes of the Harrison County Fiscal Court meetings that the transfer of the funds to the school board was approved in form before the District Court. On October 10, 2000, the minutes reflected the approval of the final transfer of the Stump, Cox and Moore Educational Trust Funds to the Harrison County School Board. Therefore, as of June 30, 2001, these funds are no longer accounted for through the Harrison County Fiscal Court.

Note 8. Insurance

For the fiscal year ended June 30, 2001, Harrison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HARRISON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 4,728,927	\$ 3,835,793	\$ (893,134)
Road and Bridge Fund	1,029,497	991,428	(38,069)
Jail Fund	425,500	83,658	(341,842)
Local Government Economic Assistance Fund	28,600	7,244	(21,356)
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	542,580	24,811	(517,769)
E-911 Fund	225,000	304,654	79,654
<u>Trust and Agency Fund Type</u>			
Shropshire Fund	23,000	31,792	8,792
Cox Fund	360,681	6,088	(354,593)
Stump Fund	164,704	2,839	(161,865)
Moore Fund	20,600		(20,600)
Totals	<u>\$ 7,549,089</u>	<u>\$ 5,288,307</u>	<u>\$ (2,260,782)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 7,549,089	
Add: Budgeted Prior Year Surplus		1,137,592	
Less: Other Financing Uses		<u>(1,609,800)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 7,076,881</u>	

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SCHEDULE OF OPERATING REVENUE

HARRISON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE
		General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Trust and Agency Fund Type
Taxes	\$ 2,440,259	\$ 2,202,142	\$ 238,117	\$	\$
In Lieu Tax Payments	4,438	4,438			
Excess Fees	24,339	24,339			
Licenses and Permits	1,191	1,191			
Intergovernmental Revenues	1,842,587	1,760,187	82,400		
Charges for Services	10,390	10,390			
Miscellaneous Revenues	811,667	787,583	750	4,556	18,778
Interest Earned	226,936	127,853	8,198	68,944	21,941
Total Operating Revenue	<u>\$ 5,361,807</u>	<u>\$ 4,918,123</u>	<u>\$ 329,465</u>	<u>\$ 73,500</u>	<u>\$ 40,719</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HARRISON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,248,347	\$ 1,502,868	\$ 745,479
Protection to Persons and Property	619,136	664,850	(45,714)
General Health and Sanitation	259,419	219,277	40,142
Social Services	64,935	50,949	13,986
Recreation and Culture	60,800	61,800	(1,000)
Roads	1,011,297	1,283,400	(272,103)
Airports	5,000	5,000	
Bus Services	15,264	15,264	
Other Transportation Facilities and Services	1,500	1,500	
Debt Service	60,700	36,211	24,489
Capital Projects	387,600	482,808	(95,208)
Administration	940,718	316,058	624,660
Total Operating Budget - All General Fund Types	\$ 5,674,716	\$ 4,639,985	\$ 1,034,731
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	1,609,800	1,609,800	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 7,284,516</u>	<u>\$ 6,249,785</u>	<u>\$ 1,034,731</u>

HARRISON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 275,800	\$ 77,542	\$ 198,258
General Health and Sanitation	510,000		510,000
Social Services	30,804	14,005	16,799
Administration	5,576	3,330	2,246
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 822,180</u>	<u>\$ 94,877</u>	<u>\$ 727,303</u>

TRUST AND AGENCY FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 34,000	\$ 30,058	\$ 3,942
Social Services	545,985	527,512	18,473
TOTAL BUDGET - TRUST AND AGENCY FUND TYPE	<u>\$ 579,985</u>	<u>\$ 557,570</u>	<u>\$ 22,415</u>

SCHEDULE OF OTHER EXPENDITURES

HARRISON COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Public Properties Corporation</u>
Financial Services	\$ 67,900
Bond Discount	49,133
Underwriter's Discount	38,758
Reimbursements	694,309
Building Construction	<u>351,146</u>
Total	<u><u>\$ 1,201,246</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Harrison County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Harrison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 24, 2002

COMMENT AND RECOMMENDATION

HARRISON COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2001

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2000, \$109,312 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Dean Peak's Response:

Will discuss with bank and correct error.

PRIOR YEAR FINDINGS

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HARRISON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

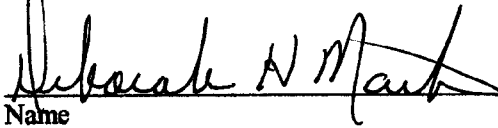
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HARRISON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Harrison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer